

## **TO A PROSPECTIVE CREDIT UNION:**

Thank you for requesting information on chartering a federal credit union.

This letter is divided into two parts. The first part is a questionnaire designed to determine the initial feasibility of forming a credit union, and whether your proposed field of membership is permissible. The second part outlines the National Credit Union Administration's (NCUA) chartering requirements.

Before preparing any chartering documents or a detailed business plan, we ask you to address the questions in Part I, as applicable, and forward your answers to this office. We will review the initial proposal to determine if it meets NCUA's field of membership criteria, and if the proposal appears reasonable.

The *Chartering and Field Of Membership Manual* sets forth the NCUA's current policies and procedures for granting and permitting change to a federal credit union charter.

You may find this manual on NCUA's web site under NCUA.gov. Once at the web site, go to *Reference Information* and click on *Chartering and FOM Manual*. It is important you carefully read this manual, paying particular attention to Chapter's One, Two, and Three.

You may find this letter on Region VI's web site also found under NCUA.gov. To locate our web site, go to NCUA's home page and click on the following sites in this order:

- Organization,
- Organization Chart,
- Regional Office,
- Pacific, and then
- Reference Materials.

At Reference Materials, look under the Division of Insurance and you will find this letter under, *General Information on Chartering a Federal Credit Union*. You will also find other useful information on chartering at this site.

If you determine your group meets the basic requirements, please answer the enclosed questionnaire, as applicable, and return it to us. However, if you determine your group does not meet the requirements, you may wish to affiliate with an existing credit union.

The credit union leagues are trade associations operating for the benefit of existing credit unions. As many of the leagues maintain listings of credit unions willing to accept new groups, you may be able to find a credit union to accept your group into their field of membership. Attached is a list of the leagues and their addresses.

We appreciate your interest in federal credit unions.

Annette K. Moore  
Director, Division of Insurance

## **PART I -- QUESTIONNAIRE FOR POTENTIAL FEDERAL CREDIT UNION CHARTER**

### **A. Proposed Field of Membership**

*The Federal Credit Union Act provides for three types of federal credit union charters – single common bond (occupational or associational), multiple common bond (multiple unrelated groups), and community.*

*A credit union's field of membership defines the persons, organizations, and other legal entities it can legally serve. All proposed fields of membership must conform to the requirements outlined in Chapter Two of NCUA's Chartering and Field of Membership Manual.*

1. What will be the proposed field of membership, i.e., who will be eligible to join the proposed credit union?
2. What will be the number of primary potential members? This figure is the total number of employees in the company, the total number of members in the association, or the total number in the community. For primary potential members (except for proposed community charters), do not count family members.
3. Is credit union service currently available to persons who will be eligible to join the proposed credit union? If so, provide the name(s) of the other credit union(s).

#### For Occupational Common Bond Group(s)

1. What is the sponsor's business or activity?
2. How long has the sponsor been in existence?
3. What has been the growth trend in employees? Provide figures for actual employees at year-end for the last five years.
4. Where are the sponsor's stores or facilities located?
5. If employees are in more than one location, give the number of employees at each location and explain how the proposed credit union will serve employees in the outlying locations.
6. If the sponsor has more than one facility, from what location is payroll administered?

#### For Associational Common Bond Groups(s)

1. How long has the association been in existence?
2. What is the purpose of the association?
3. Does the association have a constitution and bylaws? Will they, upon request, provide a copy of the association's constitution and bylaws?
4. What has been the association's growth trend in membership? Provide figures for actual members at year-end for the last five years.
5. From what geographical area does the association draw its membership?
6. In what geographical area do most of the association members reside?
7. What is the frequency of meetings of the members and what is the average attendance?
8. What other activities, which bring the members together, does the association sponsor?

#### For Community Common Bond

*Community charters must be based on "a well-defined local community, neighborhood, or rural district." NCUA's policy is to limit the community to a single, geographically well-defined area where individuals have common interests or interact.*

*If you are considering a community charter, please answer the following questions as appropriate. In answering these questions, focus on describing how and why the community's distinctive marks clearly distinguish local interaction and/or common interests. Provide specific details, as appropriate:*

1. What is the proposed community boundary?
2. What is the total population of the proposed community, and the source for this figure?
3. Is there a common political jurisdiction(s)? Describe how this common government promotes community interaction and common interests.

4. What are the major trade areas, the community shopping patterns, the traffic flows, etc., of the proposed community? How do these examples demonstrate interaction and common interest?
5. What common facilities such as, educational, medical, police and fire protection, school district, water, etc., do the proposed community residents share? How does the use of these facilities demonstrate community interaction and common interest?
6. What organizations and clubs are located within the proposed community boundary? How do these organizations promote community interaction and common interests?
7. List the newspapers or other periodicals published for and about the area, and describe why these publications help promote interaction and common interests.
8. Provide maps designating the area to be served. One map should be a regional or state map with the proposed community outlined. The other map should outline the proposed community and the identifying geographic characteristics of the surrounding areas.
9. Describe the common characteristics and background of residents (for example, their income, similarity of occupations, household types, primary age group, etc.) and explain why these common characteristics and background foster community interaction and common interests.
10. Provide any other documentation confirming the area is a community where individuals have common interests or interact.

Streamlined rules apply when the proposed service area is a recognized single political jurisdiction (such as a city, town, or county) and the population does not exceed 300,000 (200,000 for multiple contiguous political jurisdictions). If the population of the requested area exceeds this limit, you should contact the regional office for additional instruction.

## **B. Availability of Organizers and Subscribers**

*Federal credit unions are generally organized by persons who volunteer their time and resources and are responsible for determining the interest, commitment, and economic advisability of forming a federal credit union. The organization of a successful federal credit union takes considerable planning and dedication.*

1. Are there seven (7) persons who will be the subscribers to the charter, and are there eleven (11) persons who are able and willing to volunteer their time to serve on the board of directors and committees of the proposed credit union?
2. What is the name of the person with business and accounting background who is willing to devote a substantial amount of his/her time to serve as Treasurer/Manager of the proposed credit union?
3. Have these volunteers read the following publications in order to learn about credit unions and to become aware of their responsibilities (available on NCUA's web site under *Reference Information*):
  - Chartering & Field of Membership Manual,
  - Federal Credit Union Act,
  - Insured Funds, and
  - Federal Credit Union Handbook.
4. Provide the names of persons within the group who will volunteer their time to devise and carry out an extensive educational program to encourage all potential members to join and participate in the proposed credit union?
5. Will you, upon request, prepare and present to this Agency a detailed business plan for the proposed credit union?
6. Will you, upon request, prepare and present to this Agency detailed projected financial statements for the proposed credit union? Semiannual pro-forma financial statements will be required for the first and second year?
7. Provide the name of the person we should contact should we need additional information.

**C. Membership/Sponsor Support**

*Economic advisability is a major factor in determining whether the credit union will be chartered. An important consideration is the degree of support from the field of membership and the sponsor. The charter applicant must be able to demonstrate membership support is sufficient to ensure viability.*

1. What is the name of the company, association, or community group willing to sponsor the proposed credit union, i.e., the employer or organization providing the basis and support for the proposed credit union's field of membership?

2. Is the sponsor favorable toward the organization of the proposed credit union? Provide the names of officials of the sponsor who have expressed support for the proposed credit union. What support will the sponsor provide the new credit union, such as financial assistance and facilities?
3. If the sponsor will not be committing resources to the new credit union, explain how operations will be carried out effectively.
4. What is the initial level of deposits pledged by the potential members upon the date of chartering?
5. How many persons have pledged (and how much) to begin systematic savings within 30 days of organizing the proposed credit union?
6. Have you developed a mentor relationship with an existing credit union? If so, what is its name?
7. Have you contacted the appropriate credit union league for direction, other credit unions to form a mentor relationship, or other organizations for possible assistance?

#### **D. Low Income Designation**

*A designated low-income credit union can accept non-member deposits; conduct business lending with greater flexibility; participate in the Community Development Revolving Loan Program; and be eligible to apply for technical assistance funding. To qualify, a credit union must meet one of the following conditions outlined in Question 2. If you provide us with the appropriate zip codes, we will help you determine if the proposed credit union qualifies for a low-income designation.*

1. Are you applying for a low income designation?
2. Does a majority of the proposed credit union's members, or a majority of individuals within the geographic area of the proposed field of membership:
  - Earn less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics; or
  - Whose annual household income falls at or below 80 percent of the median household income for the nation as established by the Census Bureau?
3. What zip codes cover the geographic area of the proposed field of membership?

## **PART II -- CHARTERING REQUIREMENTS**

Before chartering a federal credit union, NCUA must be assured the institution will be viable and will not materially affect existing state or federal credit unions. NCUA will conduct an independent, investigation of each charter application to assure itself the proposed credit union can be successful. In general, the success of any credit union depends on the character and fitness of management, the depth of the members' support, and present and projected market conditions. To assess a proposed federal credit union's viability, NCUA requires the following:

### **A. Chartering Documents**

The following completed forms (provided in NCUA's *Chartering and Field of Membership Manual*) are required for all federal charters:

1. NCUA 4001, FCU Investigation Report.
2. NCUA 4008, Organization Certificate (Note: Please fill in only Page 3, Section 3 and 4, and all of Page 4 and provide 2 original notarized copies).
3. NCUA 4012, Report of Official and Agreement to Serve (1 for each official including board of directors, supervisory committee members, credit committee members, and manager/CEO).
4. NCUA 9500, Application and Agreements for Insurance of Accounts.
5. NCUA 9501, Certificate of Resolutions.

### **B. Proposed Management's Character and Fitness**

The Federal Credit Union Act requires NCUA to satisfy itself as to the general character and fitness of the subscribers. In addition, prospective officials and employees will be subject of credit and background investigations. The investigation reports must demonstrate their ability to effectively handle financial matters.

NCUA also needs assurance the management team will have the requisite skills - particularly in leadership and accounting - and the commitment to dedicate the time and effort needed to make the proposed federal credit union a success.



NCUA will conduct a credit and background investigation, including criminal record, of each of the proposed officials. We also have the right to conduct a check on employees of the proposed credit union.

Section 701.14 of NCUA's Rules and Regulations set forth the procedures for NCUA approval of officials of newly chartered credit unions. All proposed board members, supervisory committee members, credit committee members, and the manager must submit an NCUA Form 4012, Report of Official and Agreement to Serve, found in the back of NCUA's Chartering Manual.

Each prospective official and employee must also complete the *Required Information From Prospective Credit Union Officials and Employees*. You may find this document on Region VI's web site, under Division of Supervision, following the instructions provided at the beginning of this document.

### **C. Business Plan**

The business plan must be realistic and supportable and include, at a minimum, the following elements:

1. Mission statement. What is the proposed credit union's mission? Why was the credit union organized? Who will the credit union serve and for what reason(s)? What is the philosophy?
2. Analysis of market conditions - economic prospects for the group, availability of financial services from credit unions, banks, S&Ls. List any credit unions available to the proposed credit union's potential field of membership. (These are called "overlapped credit unions".) In addition, particularly for proposed credit unions with a community common bond, list the names of banks and S&Ls with offices available to the potential field of membership. If the proposed field of membership has no or little access to any financial services, please indicate such. Indicate if the availability of financial services is limited and for what reasons (for example, deposit facilities only, inability to find loan products, lack of ability to communicate (non-English speaking people, inability to get desired service, etc.).
3. Include letters from all overlapped credit unions indicating whether it concurs or objects to the overlap. If the overlapped credit union objects or fails to respond, document attempts to resolve the issue. (Note: This requirement does not apply to community charter applicants.)

4. Summary of potential membership survey results. Summarize survey results indicating how many potential members were surveyed, how many responded to the survey, how many are in favor of the proposed credit union, how many are not in favor of the proposed credit union, and how many will pledge initial and/or systematic deposits. A survey of the proposed credit union's field of membership should include questions such as the following:
  - Would you be interested in a credit union serving the \_\_\_\_\_ association, company, or community?
  - Are you eligible to join any other credit union? Which one(s)?
  - What type of services would you want the proposed credit union to offer?
  - Would you be willing to pledge an initial deposit in the credit union?
  - How much would you be willing to pledge?
  - Would you be interested in making systematic deposits (such as payroll deduction) in the credit union? How much would you deposit each month?
  - What type of loan products would you want the credit union to offer?
5. Summary of both initial and on-going pledges received. Summarize results regarding the amount of funds initially pledged, and the amount of funds pledged for systematic deposit. These numbers should help support the assumptions and projections used to develop the pro forma financial statements and are very important in determining the proposed credit union's viability.
6. Financial services needed/desired. From the survey, summarize what type of financial services the potential members need and/or desire. Indicate how many people requested each specific service if possible.
7. Financial services to be provided. What financial services will the proposed credit union provide? What financial services will the proposed credit union provide in the future? Be reasonable in determining how quickly a service will be implemented as most require start-up costs.
8. How/when services are to be implemented. During what time frame will the desired services be implemented? How will it be determined the time for implementing a specific service is appropriate (profitability concerns, capital formation concerns, expense issues, etc.).
9. Staffing of credit union and credentials of key employees. Who will manage the day-to-day affairs of the proposed credit union? What are their credentials and what experience do they have in operating a financial institution? A current resume will help demonstrate the individual's specific qualities. Experience shows a newly

chartered credit union's manager must have the skills and background to perform the credit union's record keeping and prepare the monthly financial statements as well as run the daily operations and prepare loan papers. A federal credit union will not be chartered without someone who can operate the day-to-day affairs.

All new federal credit unions are encouraged to establish a mentor relationship with a knowledgeable experienced credit union individual or an existing, well-operated credit union. The mentor should provide guidance and assistance to the new credit union through attendance at meetings and general oversight review.

10. Operating facilities, office space/equipment and supplies, safeguarding of assets, insurance coverage, etc. Where will the proposed credit union be located? What equipment will be required to begin operations? If any donated equipment will be used, please indicate who will be donating it. What will the proposed facilities cost? If rental/lease expense will not be incurred, such as a sponsor donating it, please indicate such. A detailed itemized list is best.
11. Type of record keeping system. Most credit unions use a computerized record keeping system for share and loan records at a minimum. Many also use a computerized system for maintaining the credit union's books. Has a data processing system been selected? What systems were looked into? What system was selected? What will it cost?
12. Budget for the first and second year. The budget must be realistic and supportable. It must be based on assumptions regarding such things as dividend rates on shares, share growth, loan interest rates, income from investments and fees, expenses covering the costs of operating (audit costs, salary and benefits, data processing costs, costs associated with granting and collecting loans, etc.), regulatory reserving requirements, and capital formation goals.
13. Semiannual pro forma financial statements for the first and second year, including assumptions - see budget discussion above. The Accounting Manual for Federal Credit Unions includes a sample financial statement format for credit unions to follow.
14. Goals for number of members, amount of shares, and amount of loans. What are the goals for the number of members, shares and loans during the first and second year of operation? The goals should be based on the amount of potential membership and survey results, with realistic growth rates for member penetration.

15. Goals for operating independently. When will the proposed credit union break even or operate profitably? If the proposed credit union will operate with sponsor subsidies, donations, grants, etc., during the initial year(s), what will be accomplished to allow the credit union to operate without support? The institution is not considered viable if it continually requires significant subsidies.
16. Source of funds to pay expenses during initial months of operations. What subsidies will the credit union initially operate with? How will expenses be paid? Firm commitment letters from any entities offering support will enhance the package and demonstrate the proposed credit union's viability. Often, grants are provided from various foundations and possibly from community oriented banks for start up costs and operating costs of community chartered credit unions. Credit union leagues may be able to provide a list.
17. Written policies (lending, investments, funds management). Please provide copies of the lending, investments, and funds management policies at a minimum. Many credit union leagues have developed model policies and may be purchased to assist with this aspect. The policies should be customized to your proposed credit union's needs and address at least the following:

*Loan policy*

- General statements regarding lending philosophy.
- Loan products offered by type.
- Aggregate percentages of types of loans for the loan portfolio.
- Loan discount availability.
- Equal credit statement.
- Loans to associations and organizations.
- Open-end lines of credit availability.
- Loan decision appeals.
- Cosigner policy.
- Form of application.
- Credit committee and loan officer duties.
- Credit granting standards, i.e. debt ratios, maximum loan amounts, etc.
- Loan authorization limits for committee and officers.
- Loan review requirements.
- Interest rates including how often they will be reviewed.
- Collateral requirements for each type of loan offered including financing criteria.
- Delinquencies and collections policy and procedures.
- Repossession policy.

- Allowance for Loan Losses policy and determination.

#### *Investments policy*

- Policy statement - philosophy.
- Investment strategy including an assessment of risks.
- Investment authority - who and how much.
- Authorized investments by type and amounts including a discussion of each area.
- Requirements for analysis of risk of each investment type.
- Any limitations imposed by the board of directors.
- Prohibited investments by statute and by the board of directors.
- Approved brokers and dealers and analysis required of each.
- Safekeeping requirements.

#### *Funds or financial management policy*

- Annual budgeting process.
- Budget planning.
- Budget responsibilities.
- Budget evaluations.
- Asset/Liability Management (ALM).
- Distribution of earnings.
- Reserve policies.
- Share structure.
- Dividend policies.

Eventually, policies regarding most, if not all, aspects of the credit union's operations will be required. These include Personnel, Marketing and Promotion, Security, Risk Management, and Cash for example. We recommend contacting the state credit union league, other credit unions, and the regional office for guidance in preparing all policies.

18. Goals for dividends, generation of resources. When will dividends on share accounts be paid? What goals have been established regarding sufficient earnings to pay dividends, make required reserve transfers, and build capital?
19. Plan for continuity - directors, committee members. What are the terms of each director and committee member? Are the terms staggered (some two years, some three years)? What steps will be taken to assure the new committee members and directors learn the proposed credit union's history, philosophy, and operations?

20. Evidence of sponsor commitment if subsidies are critical to success of the federal credit union. When a sponsor commits funds or space, a firm commitment letter should be provided. The letter should indicate what amount of support will be provided, when it will begin, when it will end, if it must be repaid, and any other terms or conditions. This information may be verified by the NCUA.

#### **D. NCUA Review**

NCUA staff will review the application package and verify its accuracy and reasonableness. We will inquire into:

- the financial management experience,
- the suitability and commitment of the proposed officials and employees, and
- make an assessment of economic advisability.

We will also analyze the prospective credit union's business plan for:

- Realistic projections,
- Attainable goals,
- Adequate service to all segments of the field of membership,
- Sufficient start-up capital, and
- Time commitment by the proposed officials and employees.

The organizers and subscribers will be expected to take the steps necessary to resolve any issues or concerns.

For additional information on the chartering process, you may contact Region VI's Division of Insurance at (925) 363-6200.

File:i:\chart\prospectiveCU-2

**ALASKA CREDIT UNION LEAGUE**

4000 Credit Union Drive, Suite 650  
Anchorage, Alaska 99503-6647  
(907) 562-1255 FAX: (907) 563-7676  
<mailto:akleague@artic.net>

**CALIFORNIA CREDIT UNION LEAGUE**

P. O. Box 3000  
Rancho Cucamonga, CA 91729  
9500 Cleveland, Ave., Ste. 200.  
Rancho Cucamonga, CA 91730-5908  
800-472-1702 (909) 980-8890  
FAX: (909) 590-78241  
<mailto:publicmail@ccul.org>

**HAWAII CREDIT UNION LEAGUE**

1654 South King Street  
Honolulu, Hawaii 96826-2097  
(808) 941-0556 FAX: (808) 945-0019  
[hcul@aloha.net](mailto:hcul@aloha.net)

**IDAHO CREDIT UNION LEAGUE**

P. O. Box 5158  
2770 Vista Avenue  
Boise, Idaho 83705-0158  
(208) 343-4841 FAX: (208) 343-4869  
<mailto:league@idahocul.org>

**MONTANA CREDIT UNION LEAGUE**

1236 Helena Avenue  
Helena, Montana 59601-2998  
(406) 442-9081 FAX: (406) 442-9085

**NEVADA CREDIT UNION LEAGUE**

P. O. Box 3000  
Rancho Cucamonga, CA 91729  
9500 Cleveland Ave., Ste. 200  
Rancho Cucamonga, CA 91730-5908  
(909) 628-6044 800-472-1702  
FAX: (909) 590-7121  
<mailto:publicmail@ccul.org>

**OREGON CREDIT UNION LEAGUE**

P. O. Box 1900  
Beaverton, Oregon 97075-1900  
9730 SW Nimbus Avenue  
Beaverton, Oregon 97008  
(503) 641-8420 FAX: (503) 644-7234  
<mailto:info@orcul.org>

**UTAH CREDIT UNION LEAGUE**

P. O. Box 27277  
Salt Lake City, Utah 84127-0277  
1805 South Redwood Road  
Salt Lake City, Utah 84104  
(801) 972-3400 FAX: (801) 975-9301

**WASHINGTON CREDIT UNION LEAGUE**

33320 9th Avenue South  
Federal Way, Washington 98003-7322  
(206) 340-4111 (800) 552-0680  
FAX: (206) 340-4808

**WYOMING CREDIT UNION LEAGUE**

P. O. Box 1227  
Arvada, CO 80001-1227  
4905 West 60th Avenue  
Arvada, CO 80003  
(303) 427-4222  
(800) 477-6240 FAX: (303) 428-1820